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| FSC-155-B | 10/16/97 | | |
| SUBJECT: | SALEM Tear Tape Product and Program Update | | |
| DISTRIBUTION: | | | |
| <input checked="" type="checkbox"/> AVP | <input checked="" type="checkbox"/> KAM | <input checked="" type="checkbox"/> DM | |
| <input checked="" type="checkbox"/> RSM | <input checked="" type="checkbox"/> AM | <input checked="" type="checkbox"/> RM | |
| <input checked="" type="checkbox"/> RBM | <input checked="" type="checkbox"/> AE | <input checked="" type="checkbox"/> Sales Rep | |
| <input checked="" type="checkbox"/> ROM | | <input checked="" type="checkbox"/> Retail Rep | |

Objective: To communicate 1998 program results, action plan for remaining quantities in addition to the development/execution process of the 1998 program.

Purpose: An analysis conducted early this year indicated that the key driver of SALEM's soft performance was its disadvantage to key competitors in two areas - depth and breadth of promotion on display in convenience/gas outlets. This disadvantage was being driven by both Kool and Newport's aggressiveness and SALEM being fourth priority relative to our discounting efforts at retail. As a result, the 30¢ Tear Tape Product Program was developed to ease the executional burden of discounting SALEM at retail.

Results

The July/August wave of the program appears to have impacted both the depth and breadth of SALEM's promotional support in convenience/gas outlets. The Ban System Indicates placements of SALEM's discounting increased 24% in comparing second and third quarter 1997. Marlin also indicates a positive impact especially in the breadth of promotion on display (27% in August vs. June). Even with these improvements, SALEM continues to be at a disadvantage to Kool/Newport.

| | C/G - August | | |
|-----------------------|--------------|------|---------|
| | SALEM | Kool | Newport |
| % Volume PV | 15.9 | 19.8 | 8.6 |
| % CIV Display with PV | 18.5 | 31.8 | 23.0 |

Field Sales Response

- Retail Rep response has been positive relative to ease of discounting execution at retail.
- ROUs raised concerns regarding the time-consuming administrative process since the program was handled outside of the normal workplan promotion process.
- KAMs/AMs/SRs must manually calculate quantities by store.
- ROUs must manually build direct account allocations and store list.

Next Steps

- October - December 1997
 - Region allocations remaining from Wave 1 (July/August) and Wave 2 (September/October) are adequate to satisfy commitment for the remainder of 1997.
 - Continue to supplement with DOD programs and Retail Rep execution in accounts which cannot accommodate tear tape product.

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- January - March 1998
 - SALEM discounting is to be executed utilizing DOD or Retail Rep implementation at store level.
- NOTE: It is critical that you ensure SALEM remains competitively priced and displayed during these periods based on product quantities driven from your region/division quantity grid in convenience/gas outlets on grid for SALEM.
- April - December 1998
 - Revised program will utilize the account level allocation methodology, off invoice with each account's retail accrual statement being charged via template update.
 - Information Resources (I/R) is developing an account level model which matches store Aim volume to the region quantity grid by division in convenience/gas outlets on grid for SALEM.
 - The model will recommend quantities of tear tape product for each store by brand style vs. brand family.

Tentative Timing

- 12/1: I/R to have model available for Field input.
- 1/15: Field quantity verification completed.
- 2/16: First order date.
- 4/6: DTS revised Tear Tape Product Program

NOTE: The 1998 April - December revised program will be communicated in detail by mid-November 1997.

The SALEM Tear Tape Product Program has proven to be successful in easing the execution burden at retail. However, it has also resulted into an administrative burden to the ROU and selling arm. The revised program for 1998 will enable us to be more efficient and effective which as a result will enable SALEM to be more competitive in its discounting efforts at retail.

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